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# CONCEPT PAPER FOR A PORTABLE GUARANTEE FOR FINANCOOP

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## CONCEPT PAPER FOR A PORTABLE GUARANTEE FOR FINANCOOP

### **Regulated Cooperative Sector**

The regulated savings and loan cooperative system in Ecuador has 5.5% of the total private financial sector assets. On March 31, 2004, the regulated cooperative system had \$468 million dollar, growing 8.7% from the previous quarter of December 2003. The loan portfolio represented 68.5% of the assets, followed by investment with 12.7%. On the liability side the regulated cooperative sector had an increase of 8.6% from the previous quarter of December 2003 for a total of \$386 million. Deposits from the public at large represented 90.7% of the total liabilities. During this period, short-term deposits increased by 7.5% while certificate of deposits increased by 13.2%

The loan portfolio of the regulated cooperative system is distributed as follows:

- Consumption: 37.0%
- Commerce: 24.6%
- Microcredit: 19.6%
- Housing: 18.9%

The percentage of loans in arrears varies according to sector. Housing and microenterprise loans have the lowest percentage of loans in arrears as follows:

<b>Arrears</b>	<b>December 2003</b>	<b>March 2004</b>	<b>Variation</b>
Commercial	5.5%	6.5%	18.6%
Consumption	11.3%	9.7%	-13.7%
Microcredit	5.4%	5.5%	1.9%
Housing	2.4%	2.6%	8.3%
Total	7.1%	6.8%	-5.3%

*Source: Superintendence of Banks and Insurance of Ecuador*

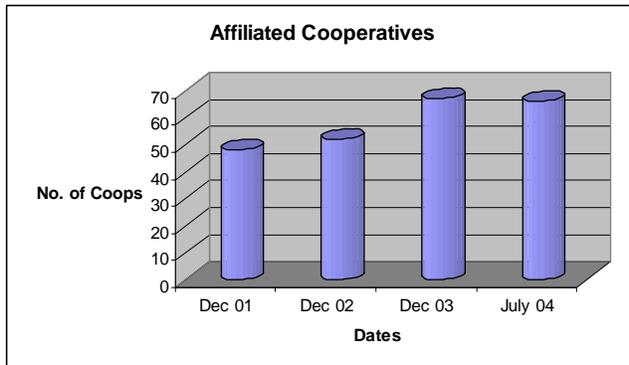
FINANCOOP, a second tier financial services facility was created with the support of 17 savings and loan cooperatives. It initiated operations on August 29, 1999. FINANCOOP's main role is to facilitate and administer the liquidity of member cooperatives, by tapping excess liquidity from cooperatives and lending these resources to qualified coops that have short and medium-term financial deficits. FINANCOOP is a regulated financial intermediary under the supervision of the Superintendence of Banks and Insurance. FINANCOOP's main objective is to help strengthen the affiliated savings and loan cooperatives through a second tier financial intermediation system. On July 18, 2002, the Superintendence of Banks gave FINANCOOP the qualification of "Caja Central Cooperativa FINANCOOP," recognizing it as the second tier financial intermediation institution for the savings and loan cooperatives.

#### Founding Cooperatives

(1) Riobamba, (2) Cacpeco, (3) San Miguel de los Bancos, (4) Guaranda, (5) CACPE Pastaza, (6) Nuestra Sra. de La Mercedes, (7) Calceta, (8) Salitre, (9) CACPE Loja, (10) CACPE Celica, (11) Cacpe Biblian, (12) Alianza del Valle (13) Cacpe Tungurahua, (14) Cacpe Napo, (15) Chuchiqui, (16) Amazonas, and (17) San Jose

USAID/Ecuador is interested in requesting a portable guarantee for FINANCOOP to support the capitalization of its second tier lending facility and support microfinance loans for the affiliated cooperatives. FINANCOOP has 66 affiliated savings and loan cooperatives in different levels of institutional development. These cooperatives have over 1.1 million members which represents approximately 8% to 9% of the population of Ecuador.

FINANCOOP is a relative new institution, its total assets has grown by 387% during the last three years (2001 – 2003). Its loan portfolio has increased from \$618,377.00 to \$1,287,988.59



during this time frame and represents a growth rate of more than 100%. Its savings and certificate of deposits has increased by 524% in this same period from \$309,556.51 to \$1,930,269.27. Its equity base has grown from \$206,747.78 to \$1,065,829.23 during the last three years. The increase in capitalization was due to the requirements of the Superintendence of Banks and Insurance that required that FINANCOOP increase its equity to a minimum of \$1.0 million by

December 2003. FINANCOOP slightly exceeded the requirements of the Superintendence of Banks.

The loan portfolio of FINANCOOP is very health since they only lend to affiliated credit unions. For example on December 2003 FINANCOOP had an outstanding loan portfolio of \$1,287,988. The Superintendence of Banks classified FINANCOOP’s loan portfolio as category “A” which means that the portfolio has a normal risk and is required to have a 1% provisions for net losses. On June 30, 2004, FINANCOOP had an outstanding loan portfolio of \$1,295,763 and the entire portfolio was also classified by the Superintendence of Banks as an “A” loan portfolio.

To develop its institutional capacity, FINANCOOP developed the following manuals to improve its management capacity to manage a second tier operation.

- Credit Manual
- Treasury Manual
- Investment Manual
- Risk Manual for Liquidity and Market
- Money Laundry Prevention Manual

In addition, FINANCOOP has a series of internal operations manuals which include administration, travel, purchase of equipment, etc.

USAID, through its Cooperative Agreement with WOCCU is providing external technical assistance to FINANCOOP. To reduce operational costs the USAID-WOCCU Cooperative Agreement is helping FINANCOOP to establish a National and International Cooperative Business Network. Through this network, the affiliated savings and loan cooperatives will provide members with the possibility of share branching, that is members of Coop A may use the

facilities of Coop B through Z to deposits, take out money, use their credit or debit card, etc. This extension of the points of services will permit the Cooperatives to compete effectively with the commercial banking system in Ecuador. In addition, WOCCU is providing assistance to connect this share branching system with U.S. Credit Unions, in order to develop an International Remittance Network, to lower existing transaction costs of remittances. To support this system the Cooperative Agreement will also support the development of Credit and Debit Cards to receive and disburse remittances with the use of an ITM machines. To develop the business network of credit union through FINANCOOP, USAID is also providing technical assistance in the selection and adjustment of the software that will be used for online communication between service branch, headquarters and credit unions.

Technical assistance is also being provided to a selected group of savings and loan cooperatives to strengthen their institutional capacity to provide financial deepening services and introduce microfinance technologies. One of the objectives of the existing cooperative agreement is to support WOCCU's effort to extend credit union services to the poor in remote and rural areas of Ecuador. WOCCU will assist selected cooperatives to adopt the village banking methodology to reduce the transaction costs of the loans and improve its outreach and financial deepening process.

To improve the financial monitoring process, technical assistance is being provided to develop financial management and monitoring systems for credit union directors. This includes the PEARLS system which is an international accepted financial management system for credit union, and helps the credit unions to target and measure profitability and financial structure goals. This system provides managers and board members with the information needed to make timely adjustments to their day-to-day operations.

The Cooperative Agreement with WOCCU intends to strengthen selected FINANCOOP's affiliated cooperative to:

- Institutionally develop the capacity of the financial intermediaries so they are able to meet the regulatory and supervisory requirements demanded by the Superintendence of Banks and Insurance.
- Develop an efficient and sustainable network to supply quality services to credit unions that are monitored by the Superintendence of Banks and Insurance.
- To improve the governance of credit union by training current and potential new directors.

Preliminary contacts with FINANCOOP suggest that USAID will support a portable guarantee which will be used to increase the liquidity of the loan fund for microenterprise lending. FINANCOOP and WOCCU have indicated that they believe that the portable guarantee will be used to tap excess liquidity generated by the U.S. credit unions to on-lend to Ecuadorian credit unions through FINANCOOP's second tier facility.

## **Proposed Guarantee Terms and Conditions:**

**Guarantee Purpose:** The USAID guarantee is intended to induce the Guaranteed Party (FINANCOOP) to make the Loan to the Borrower (Credit Unions) and thereby increase the amount of capital that the Borrower has available to provide credit to microenterprises across Ecuador. The Guarantee will thus enable more Ecuadorian microentrepreneurs to receive loans and financial services and stimulate economic growth.

**Type of Guarantee:** USAID/Ecuador will request a portable guarantee to assist FINANCOOP to obtain a loan from the financial credit union or bank system in the U.S. or elsewhere.

**The Guarantee:** To induce the Guaranteed Party to make a Loan to the Borrower, USAID/Ecuador proposes the following terms:

- **Maximum Authorized Loan Amount:** The aggregate principal amount of the Loan shall not exceed Five Million U.S. Dollars (US \$5,000,000). The Loan may be disbursed in one or multiple tranches in accordance with the terms of the Loan Agreement.
- **Maximum Cumulative Disbursements:** The maximum cumulative amount of all disbursements made under the Loan Agreement shall not exceed five million U.S. Dollars (\$5,000,000). No disbursement shall be covered under the Guarantee unless the amount of such disbursement, together with all previous disbursements made under the Loan Agreement, does not exceed Five Million U.S. Dollars (\$5,000,000).
- **USAID Guarantee Percentage:** Fifty (50%) percent of the Guaranteed Party's net losses of principal
- **Guarantee Ceiling (Maximum USAID Liability):** Two Million Five Hundred Thousand U.S. Dollars (\$2,500,000).
- **Currency of Loan Placed Under Guarantee Coverage:** U.S. Dollars.
- **USAID Guarantee Fees:**
  - **Origination Fee:** One percent (1%) of the Guarantee Ceiling, \$25,000.00 (Twenty-Five Thousand dollars).
  - **Utilization Fee:** One percent (1%) per annum of the average outstanding principal amount of the Loan that is guaranteed by USAID.

## FINANCIAL INFORMATION

### Summary Balance Sheet for FINANCOOP

Description	2001	%	2002	%	2003	%
<b>Assets</b>						
Cash & Balances	\$48,699.49	6.46%	\$370,951.10	27.18%	\$878,302.58	23.91%
Short Term Investment	\$20,020.17	2.66%	\$90,076.07	6.60%	\$1,414,506.13	38.51%
Loan Portfolio	\$618,377.00	82.01%	\$800,664.92	58.67%	\$1,287,988.59	35.07%
-Portfolio Reserves	-\$6,809.77	-0.90%	-\$8,537.02	-0.63%	-\$12,880.00	-0.35%
Other Net Current Assets	\$28,724.08	3.81%	\$46,256.07	3.39%	\$63,567.39	1.73%
Net Fixed Assets	\$28,019.73	3.72%	\$44,507.23	3.26%	\$30,615.60	0.83%
Other Assets	\$16,985.00	2.25%	\$20,802.24	1.52%	\$11,002.64	0.30%
<b>Total Assets</b>	<b>\$754,015.70</b>	<b>100.00%</b>	<b>\$1,364,720.61</b>	<b>100.00%</b>	<b>\$3,673,102.93</b>	<b>100.00%</b>
<b>Liabilities</b>						
Savings Deposits	\$92,039.54	12.21%	\$39,183.12	2.87%	\$568,503.10	15.48%
Certificate of Deposits	\$217,516.97	28.85%	\$468,782.29	34.35%	\$1,361,766.17	37.07%
Accounts Payable	\$6,394.43	0.85%	\$17,003.41	1.25%	\$30,832.48	0.84%
Financial Obligations	\$224,033.90	29.71%	\$540,966.03	39.64%	\$640,474.03	17.44%
Other Liabilities	\$7,283.08	0.97%	\$4,051.63	0.30%	\$5,697.92	0.16%
<b>Total Liabilities</b>	<b>\$547,267.92</b>	<b>72.58%</b>	<b>\$1,069,986.48</b>	<b>78.40%</b>	<b>\$2,607,273.70</b>	<b>70.98%</b>
<b>Equity</b>	<b>\$206,747.78</b>	<b>27.42%</b>	<b>\$294,734.13</b>	<b>21.60%</b>	<b>\$1,065,829.23</b>	<b>29.02%</b>
<b>Total Liabilities and Equity</b>	<b>\$754,015.70</b>	<b>100.00%</b>	<b>\$1,364,720.61</b>	<b>100.00%</b>	<b>\$3,673,102.93</b>	<b>100.00%</b>

### Summary Income Statement for FINANCOOP

Description	2001	2002	2003
<b>Interest Income from</b>			
Loans	\$84,369.67	\$53,622.85	\$229,153.39
Commissions/Fees	\$175.05	\$284.00	\$24,974.72
Other Income	\$152,489.41	\$73,579.34	\$35,042.85
<b>Total Financial Income</b>	<b>\$237,034.13</b>	<b>\$127,486.19</b>	<b>\$289,170.96</b>
<b>Costs &amp; Expenses</b>			
Financial Costs	\$33,696.59	\$28,047.22	\$110,582.47
Operating Expenses	\$203,121.10	\$109,929.61	\$171,776.99
Personnel	\$147,221.05	\$69,890.72	\$90,361.25
Operations	\$51,453.84	\$20,085.69	\$31,932.35
Provisions, Depreciation	\$4,446.21	\$10,102.47	\$19,636.07
Other	\$0.00	\$9,850.73	\$29,847.32
<b>Total Costs &amp; Expenses</b>	<b>\$236,817.69</b>	<b>\$137,976.83</b>	<b>\$282,359.46</b>
<b>Net Income</b>	<b>\$216.44</b>	<b>-\$10,490.64</b>	<b>\$6,811.50</b>